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SUBJECT: Austrian Economy Heads South; Bottoming Out?

REF: 08 VIENNA 1889

11. SUMMARY: Austria's economy plunged into recession in late 2008, due primarily to falling exports and industrial production. Private household consumption has help up so far. In January and February, the number of unemployed and part-time workers rose sharply in many industries. Economists now expect the Austrian economy to shrink by 1.5% in the first quarter and by 0.7% in the second quarter. Forecasters say Austria's economy should reach a nadir in the first half of 2009, then stabilize on the basis of economic stimulus spending and income tax cuts. END SUMMARY.

12. A March 10 interim report by the Austrian Institute for Economic Research's (WIFO) shows the Austrian economy fell into recession in the last quarter of 2008, when real GDP (seasonally and working day adjusted) shrank 0.2% from the previous quarter. The weakening stemmed primarily from a drop in export demand and parallel decline in industrial production. Capacity utilization has fallen five points since the summer to 77.4% in January 2009, with a stronger decline in large companies (-8.3%) and the automotive industry (-13.5%).

13. WIFO says the dismal shape of Austria's major trading partners gives little hope for an imminent recovery, but points out that companies' expectations for production, foreign orders, and the business situation (six months out) are slightly less pessimistic now than in December 2008. Only the coming months can show whether these expectations bear out. Private household consumption has held steady so far, a stabilizing factor for Austria's GDP.

14. The labor market was relatively stable until December, when the number of unemployed rose sharply in reaction to the production slump. The average unemployment rate was still only 4.0% in the fourth quarter of 2008 (versus 3.7% in Q3). In January and February 2009, the number of unemployed rose sharply along with a strong expansion of "short-time" working arrangements in many industries. First quarter unemployment rate data are not yet available.

15. The Austrian National Bank's (OeNB) economic indicators released March 20 confirm the WIFO analysis. The OeNB expects the Austrian economy to shrink by 1.5% in Q1/2009 (versus Q4/2008) and a further 0.7% in the second quarter. OeNB Governor Ewald Nowotny predicted the economy will bottom out quickly (the first half of 2009) once an income tax cut and econmic stimulus measures show effect.

16. STATISTICAL ANNEX

Real GDP (Percent change)		
	QUARTERLY	YEAR-ON-YEAR
3/2007	0.7	2.7
4/2007	0.7	2.6
1/2008	0.5	2.9
2/2008	0.2	2.4
3/2008	0.0	1.5
4/2008	-0.2	0.3
1/2009 OeNB proj.	-1.5	-1.4
2/2009 OeNB proj.	-0.7	-2.3

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